

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Notice of Market-Dominant  
Price Adjustment

Docket No. R2013-7

PUBLIC REPRESENTATIVE COMMENTS  
(May 30, 2013)

The Postal Service filed a notice pursuant to 39 U.S.C. § 3622 and 39 CFR § 3010 regarding its plan to include \$50 or \$100 of insurance coverage at no additional charge with most Priority Mail pieces.<sup>1</sup> The price change is scheduled to take effect July 28, 2013.

Currently, the Postal Service charges Priority Mail users a fee of \$1.95 for insurance coverage up to \$50 and \$2.45 for insurance coverage between \$50.01 and \$100. Notice at 2. The Postal Service's principal domestic competitors, FedEx and UPS, include insurance coverage up to \$100 at no extra charge. *Id.* The Postal Service asserts that this provides a competitive advantage with shippers, particularly large volume shippers. *Id.* By offering insurance coverage up to \$100 for no additional charge on most Priority Mail pieces, the Postal Service hopes to improve the competitiveness of Priority Mail and potentially grow its overall market share. *Id.*

Automatic insurance coverage up to \$100 at no extra charge is planned for all domestic Priority Mail pieces that bear an Intelligent Mail package barcode (IMpb) and for which the mailer pays Commercial Plus prices or uses a "Qualifying Payment Method."<sup>2</sup> The Postal Service plans to offer automatic insurance coverage up to \$50 in

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<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, May 10, 2013 (Notice).

<sup>2</sup> Qualifying Payment Methods are limited to ePostage, Electronic Verification System (eVS), Hardcopy Manifest, or an approved Manifest Mailing System. *Id.* at 3 n.2.

value on all other domestic Priority Mail pieces that bear an IMpb or other USPS retail tracking barcode.<sup>3</sup> *Id.* at 2-3.

In its Notice, the Postal Service states that the Special Services class, based upon the most recent 2 quarters of operations, has inflation-based price adjustment authority of 1.053 percent<sup>4</sup> and unused price adjustment authority of 2.114 percent,<sup>5</sup> The Postal Service states that it does not intend to utilize this authority in this docket. *Id.* at 3-4. By eliminating the fees for the first \$100 (or \$50) of insurance coverage for most Priority Mail pieces, the Postal Service's notice indicated that the prices for Special Services class will decrease by 0.452 percent, providing 3.619 percent in unused pricing authority. *Id.* at 5.

The Commission's rules require the calculation for the percentage change in rates to utilize the volumes from the most recent 12 months of billing determinant. 39 CFR § 3010.23(d). Consequently, the Chairman's Information Request No. 1 requested the Postal Service to provide that information.<sup>6</sup> In response, the Postal Service states that by using the most recent 4 quarters of operations, the prices proposed for the Special Services class will decrease by 0.511 percent.<sup>7</sup> As a result, the pricing authority available for Special Services will be 3.678 percent. Response at 2.

The Response also explained that the Postal Service's method of estimating the pieces of Priority Mail that would receive free insurance coverage is not a perfect match of the pieces that will receive free insurance, but is the best method available and may even understate the value of the price decrease. Response at 2-3.

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<sup>3</sup> Automatic insurance coverage will not be offered with Priority Mail pieces sent using Merchandise Return Service, Priority Mail Open and Distribute, or Premium Forwarding Service. *Id.* at 3 n.3.

<sup>4</sup> This is based on the Consumer Price Index – All Urban Consumers, U.S. All Items (the “CUUR0000SA0” series). *Id.* at 3.

<sup>5</sup> See Docket No. R2013-1, Order No. 1541, November 16, 2012 at 72.

<sup>6</sup> Chairman's Information Request No. 1 (CHIR No. 1), May 16, 2013, question 1a.

<sup>7</sup> Response of United States Postal Service to Chairman's Information Request No 1 (Response), May 24, 2013 at 2.

The Postal Service asserts the price change does not affect workshare discounts. *Id.* at 7. Apart from basing the amount of automatic insurance on the mailer's use of certain postage payment methods, the Postal Service asserts that the price change does not exclude any mailers and will therefore not affect compliance with any preferred rate requirements. *Id.*

Proposed changes to the MCS, which describe the price change, appear in Attachment A of the Postal Service's Notice.

The Commission's rules provide a period of 20 days from the date of the Postal Service's filing for public comment. 39 CFR § 3010.13(a)(5). Comments by interested persons were due no later than May 30, 2013.

#### PUBLIC REPRESENTATIVE COMMENTS

The Public Representative fully supports the Postal Service's plan to include insurance free of charge with certain Priority Mail. The changes are consistent with applicable law under 39 U.S.C. § 3622 and the regulations under 39 CFR Part 3010, particularly § 3010.14. The Postal Service has submitted a schedule of the proposed rates and the planned effective date of the proposed rates. *Id.* at 1. Public notice will be issued, *Id.* at 1, and the identity of a Postal Service official responsible has been provided. *Id.* at 2.

Required technical information has been provided, including the change in the CPI-U, *Id.* at 3, and the Special Services unused rate authority is 1.505 percent based on 6 months, *Id.* at 4, and 1.564 based on 12 months of data. Response at 2. The percentage change in prices for Special Services is -0.452 based on 6 months of data, Notice at 5, and -0.511 for 12 months of data. Response at 2. The new total unused rate authority is 3.619 percent with 6 months of data, Notice at 5, and 3.678 percent with 12 months of data. Response at 2. Because the price change does not affect workshare discounts, no schedule of workshare discounts or of avoided costs are needed, Notice at 7, and no discounts for workshare discounts that exceed avoided

costs are required. *Id.* at 7. The rate adjustments are shown to help achieve the objectives and factors in 39 U.S.C. § 3622(b) and (c), and are consistent with 39 U.S.C. § 3626, 27 and 29. *Id.* at 6. MCS language to implement the planned rate adjustments is included in the Notice. *Id.* Attachment A.

The Postal Service's methodology for estimating the number of pieces to receive free insurance appears reasonable. The precise impact of future revenue decreases cannot be determined as an exact calculation. The Postal Service used a reasonable method to estimate the number of Priority Mail pieces up to \$100 that may have included insurance in the previous twelve months. Yet, even if that estimate is exact, it does not insure that, if the fee were to continue, the same number of pieces would be sold in the following twelve months to yield the same revenue as that estimated for the 12 month estimation period. Moreover, elimination of the fee is intended to encourage additional Priority Mail volumes. Any increased revenue from that eventuality is not taken into account in calculating the overall rate reduction or the resulting increase in the banked amount. Thus, the estimation of the Postal Service represents only part of the actual impact on revenue. While some effort at precision in the estimation of fees charged in the previous 12 months is important to the process, it would be a futile exercise to demand an exact estimate of past insurance purchases in order to project the total future rate reduction to calculate the new banked amount.

The fee changes will also serve to address the competitive advantage enjoyed by the Postal Service's principle domestic competitors, UPS and FedEx, who include automatic insurance coverage up to \$100 in value with their products. The Postal Service indicated that it considered including \$100 insurance for all of its Priority Mail customers but that administrative costs, in part, made this infeasible. The Public Representative hopes that the Postal Service will shortly be able to overcome those difficulties and offer automatic insurance coverage for all Priority Mail up to \$100 and more in the near future.

A question might be posed whether the banked amount to be recognized upon approval of the rate change should be the 3.619 percent requested in the Postal

Service's original Notice or the 3.678 percent provided in the Response. Because the Commission's rules require the banked amount to be calculated using a 12 month period, the 3.678 amount should be approved as the banked amount. The Postal Service's Notice prescribing its planned reduction in fees is not altered by an increase in the banked amount calculated pursuant to the methodology in the Commission's rule.

The Public Representative respectfully submits the foregoing Comments for the Commission's consideration.

Respectfully submitted,

Kenneth E. Richardson  
Public Representative

901 New York Ave., NW Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6859; Fax (202) 789-6891  
e-mail: [richardsonke@prc.gov](mailto:richardsonke@prc.gov)